

W. Scott Randolph  
Director – Regulatory Affairs



October 23, 2002

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Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 Twelfth Street, S.W.  
Washington, DC 20554

**Ex Parte: Federal-State Joint Board on Universal Service, CC Docket No. 96-45; 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements, CC Docket No. 98-171; Telecommunications Services for Individuals with Hearing and Speech Disabilities and the Americans with Disabilities Act of 1990, CC Docket No. 90-571; Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, CC Docket No. 92-237, NSD File No. L-00-72; Numbering Resource Optimization, CC Docket No. 99-200; and Telephone Number Portability, CC Docket No. 95-116**

Dear Ms. Dortch:

On October 22, 2002, Susanne Guyer, Ed Shakin, and the undersigned met with Commissioner Kathleen Abernathy and her legal advisor, Matthew Brill to discuss the universal service contribution mechanism. We discussed why a revenue-based collect and remit system is the best near-term contribution solution. The attached material was used in the meeting.

Please associate this notification with the record in the proceedings indicated above. If you have any questions regarding this matter, please call me at (202) 515-2530.

Sincerely,

A handwritten signature in cursive script, appearing to read "W. Scott Randolph".

W. Scott Randolph

Attachment

cc: Commissioner Kathleen Abernathy  
Matthew Brill

# Universal Service Contribution Mechanism

October 22, 2002



## **A revenue-based collect & remit system is the best near-term USF contribution solution**

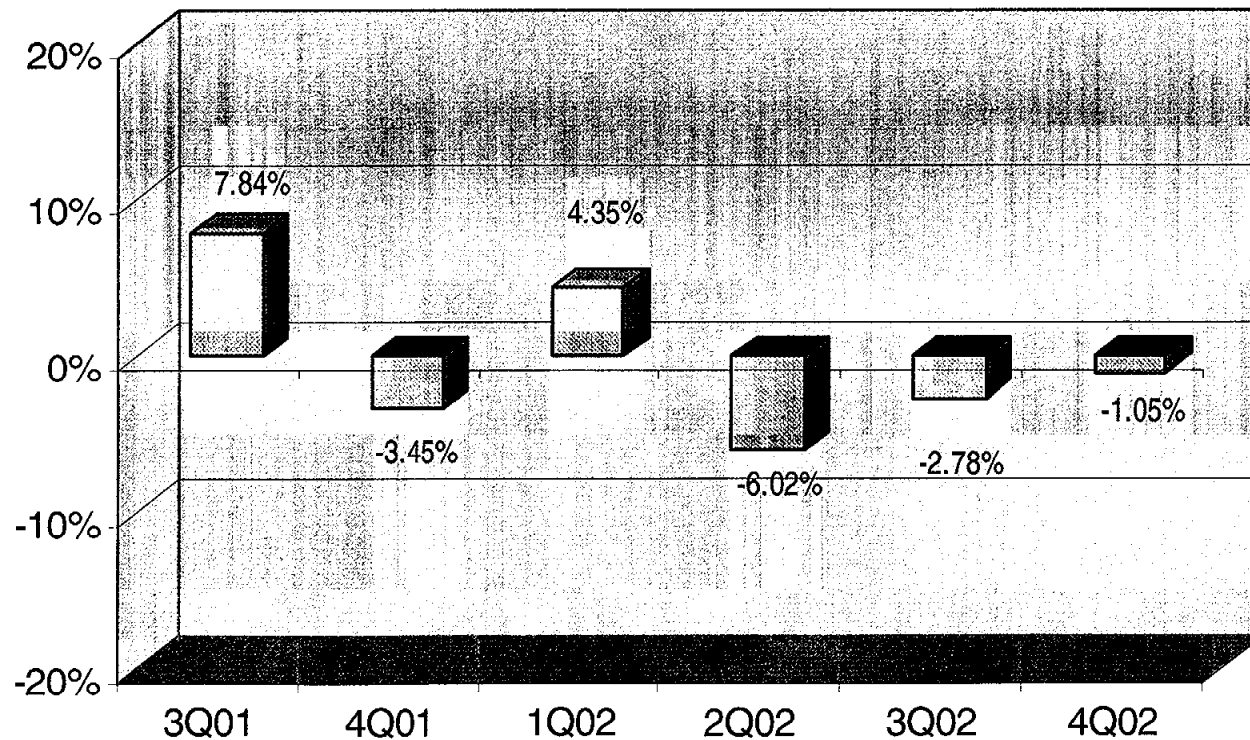
- Verizon's proposed revisions:
  - Move to collect and remit method.
  - Establish a reasonable cap on administrative overhead assessment.
  - Reassess wireless allocation for interstate revenues.
  - Include all broadband transport revenues in the base for schools & libraries fund, but exclude from high cost.

## **Concerns with the current system are best addressed through adjustments to the revenue-based approach**

- Under a collect and remit system:
  - USAC would set the quarterly contribution percentage based on projected fund needs and projections of collected revenues.
  - Carriers would remit payments based on USAC percentage applied to interstate revenues actually collected.
  - Eliminates problems with uncollectibles, lag-times, declining revenues.
  - Prevents assessment of excessive charges by certain contributors.

## Interstate retail revenues are not in a “death spiral”

- The rate of decline in reported retail revenue is slowing:



Change in universal service contribution base - USAC

## Verizon's proposal results in a surcharge less than currently assessed by IXC's

- Interstate Revenue System Contribution Factor for 4Q2002 under various scenarios of increased CMRS contribution levels with:

	CMRS @ 14.3% (current level)	CMRS @ 18%	CMRS @ 20%	CMRS @ 25%
DSL contributing to all funding components	9.97%	9.60%	9.40%	8.96%
DSL and Cable Modem contributing to only schools/library/RHC	Broadband = 3.46% All other = 10.16%	Broadband = 3.33% All other = 9.77%	Broadband = 3.27% All other = 9.57%	Broadband = 3.12% All other = 9.10%

Note: Contribution factors computed using USAC August 30, 2002 data, public estimates of broadband revenues, and 1% administrative markup for contributors.

## **The FCC should ensure that all interstate revenues are being captured**

- Any system must be verifiable.
  - It's not clear how USAC would conduct audits of a per connection system.
- Revisit the wireless safe harbor.
- Ensure that CLECs report as interstate revenues an amount equivalent to SLC revenues once they capture the customer from the ILEC.

## **Per connection-based proposals are far too complex and administratively costly**

- The record does not contain a reliable estimate of the initial and future impact on consumers, particularly multi-line business.
- Carriers track revenues in the normal course of business; they do not track “connections”
  - New customer record and accounting systems must be developed.
  - “Connections” must be defined, particularly for special access and “dynamic bandwidth” services to achieve consistent counts and ensure assessments are competitively neutral.
  - Historical data at needed level of detail does not exist to enable USAC or carriers to develop reliable forecast of connections.
  - USAC must establish reporting formats, data collection processes, and auditing procedures for each type.



## **Move to collect & remit**

- Legal issues inherent in adopting a CoSUS-type connection approach can be avoided by retaining the interstate retail revenue basis with Verizon's suggested revisions.
- FCC still can:
  - Analyze other proposals, gather data and assess administrative and consumer impacts of per-connection proposals.
  - Address ways to broaden the base of contributors and limit funding needs to mitigate the increased pressure on USF.
  - If the FCC chooses to move to any per connection system, allow time for orderly transition and implementation.